

Challenges of Auditors of Less Complex Entities (LCEs) in particular SMPs

Guide I: Context and Institutional Challenges for LCE Auditors with a focus on SMPs



December 2025



European Federation of Accountants and Auditors for SMEs AISBL

Rue Jacques de Lalaing 4 | B-1040 Brussels

Tel +32 2 736 88 86

E secretariat@efaa.com

www.efaa.com

Challenges of Auditors of Less Complex Entities (LCEs) in particular SMPs

Guide I: Context and Institutional Challenges for LCE Auditors with a focus on SMPs

December 2025

Part I – Introduction and Context

1. Purpose of the Guide

This guide offers a concise, practitioner-friendly overview of the institutional and market challenges that auditors face when serving Less Complex Entities (LCEs). It equips small and medium practices (SMPs) and regulators with practical perspectives on scalability vs. quality, communication, and comparability. Moreover, it provides a forward-looking view on talent, technology, and collaboration.

Note: This is a thought-leadership white paper aiming to provoke curiosity and facilitate awareness, contributing to the broader conversation of the challenges of auditors of LCEs. It is not a methodology and does not replace authoritative texts. Footnotes flag key sources for deeper reading.

2. Who Are Less Complex Entities?

In developing the ISA for LCE, the IAASB decided to focus on complexity instead of size as there could be instances where a small entity still may be very complex. In practice, there will be a significant overlap between less complex entities and small and medium-sized entities as most small and medium-sized entities are less complex.

Note: There is no unique, harmonised definition for a ‘small- and medium-sized entity,’ and the use and meaning of the term may differ in different jurisdictions. Often this term is used when referring to the size of the entity. It may be helpful to note that having a clear and common definition of SMEs in Europe could assist regulators in adopting and implementing this standard more effectively.

The ISA for LCE describes a non-exhaustive list of qualitative characteristics of a less complex entity for the purpose of determining the appropriate use of the standard (see the Authority of the ISA for LCE).¹ “LCE” relates to the nature and complexity of the entity and engagement, not just size.

Typical LCEs include:

- SMEs (not all SMEs are LCEs; many are)
- Small and medium foundations and NPOs
- Other entities that are not small or medium but remain non-complex (e.g., single-location companies with straightforward processes and limited estimates).

Indicators of lower complexity may include straightforward business models, limited number of locations and IT systems, simple governance structures, few significant estimates, simple revenue

¹ <https://www.iaasb.org/focus-areas/isa-lce-standard-audits-less-complex-entities?>

recognition, and limited regulatory overlay. Indicators of higher complexity include significant estimates or fair values, complex IT environments, multi-location or group structures, complex funding or financial instruments, heavy regulation, or pervasive use of service organizations.

3. The Role of Auditors in the LCE Landscape

Auditors of LCEs deliver reasonable assurance over financial statements, supporting trust in local and regional economies. SMPs often provide proximity, continuity, and sector knowledge that larger firms cannot easily replicate.

What auditors (SMPs) actually do in LCEs:

- Provide public-interest assurance on financial statements so owners, banks, investors, donors, and local authorities can rely on them to invest, lend, award grants, procure, and make governance decisions.²
- Serve as the primary audit capacity for LCEs. SMPs typically work closest to SMEs, other organisations of similar sizes, and NPOs; they operate with lean teams and supplement expertise externally — making them the default assurance provider in many local economies.³
- Scale procedures and documentation to the engagement’s complexity, drawing on established SME-audit implementation guidance to stay efficient and compliant.
- Narrow the expectation gap via clear engagement letters, early discussions with TCWG, practical management letters, and plain-language reporting tailored to LCE stakeholders.
- Build and sustain local talent. SMPs are the profession’s training ground in many regions but recently face increasing pipeline pressures.⁴

4. Current Trends Reshaping the Audit Profession of SMPs

Current trends reshaping audit profession of SMPs include but are not limited to:

1. Scaled standards arrive (ISA for LCE). Where permitted, SMPs can deliver reasonable assurance more efficiently by using IAASB’s standalone standard for eligible LCE audits. The standards are supported by a first-time implementation guide clarifying scope, structure, and how it compares with the ISAs.⁵
2. Data gets more digital (e-invoicing and reporting). The EU’s ViDA package (adopted Mar 11, 2025) accelerates e-invoicing and digital reporting over the next decade. So what? SMPs can expand data-driven procedures, but must address data integrity, access, and privacy in planning and evidence.⁶ Heightened cyber threats affect client risk assessment and firm-level quality responses.
3. AI and automation: GenAI and other AI tools assist planning, analytics, documentation, and drafting—raising opportunities (efficiency, coverage) and risks (bias, confidentiality, explainability).⁷

² <https://www.iaasb.org/focus-areas/isa-lce-standard-audits-less-complex-entities?>

³ <https://www.ifac.org/who-we-are/advisory-groups/small-and-medium-practices-advisory-group?>

⁴ <https://www.ifac.org/knowledge-gateway/discussion/addressing-decline-accounting-talent-pipeline?>

⁵ <https://www.iaasb.org/focus-areas/isa-lce-standard-audits-less-complex-entities?>

⁶ <https://www.consilium.europa.eu/en/press/press-releases/2025/03/11/taxation-council-adopts-vat-in-the-digital-age-package/?>

⁷ IAASB’s support materials explain how automated tools and techniques affect planning, risk assessment, analytics, and documentation (ISA 230). <https://www.iaasb.org/publications/non-authoritative-support-materials-using-automated-tools-techniques-performing-audit-procedures?>

4. Talent crunch reshapes operating models. IFAC and ACCA highlight a persistent global talent shortage and shifting worker expectations (flexibility, learning, purpose). So what? SMPs are leaning on automation, alliances, and clearer career pathways to stay competitive.⁸

Part II – Regulatory and Standard-Setting Challenges

5. The Rise of Scaled Standards (ISA for LCE)

Smaller, less complex entities make crucial contributions to the world economy and account for the great majority of audits globally. At the same time, increasingly complex structures and transactions need to be addressed in the ISAs. This complexity in the ISAs could pose challenges for audits of less complex entities and, therefore, the IAASB has developed the ISA for LCE to support these audits (IAASB).⁹

The ISA for LCE is a standalone global auditing standard designed specifically for smaller and less complex businesses and organizations. Built on the foundation of the International Standards on Auditing, audits performed using this standard provide the same level of assurance for eligible audits: reasonable assurance.¹⁰

It will help maintain confidence in financial reporting and promote the consistent application of auditing standards to LCEs, which reduces the risk of jurisdictional divergence by driving consistency and comparability globally. At the same time, it recognizes the importance of smaller businesses and their specific audit needs (IAASB).¹¹

The ISA for LCE was designed with an intuitive structure, following the flow of an audit and with clear, understandable and concise language. These make it easier to navigate for auditors who support these types of engagements.¹²

By reducing unnecessary paperwork, auditors can dedicate more time to focusing on key topics that truly add value to the audit (for SMPs and for the entities). The standard encourages auditors to think more and to document less. That makes the audit more meaningful and less bureaucratic, at the end of the day more efficient for everybody.

All the elements of the standard recognize the importance of smaller and less complex businesses and that their audit needs are different. This includes the guidance in the standard as well as the illustrations provided, which are tailored to less complex entities and condensed to only include what is 'essential' for the auditor.

To summarize, ISA for LCE is intended to help auditors of less complex entities deliver consistent and effective high-quality audits. Since so many LCEs are audited and supported by SMPs, the standard also takes into account what these firms or practitioners need to use the standard.

ISA for LCE is effective for audits beginning on or after December 15, 2025 for jurisdictions that adopt or permit its use.

⁸ <https://www.ifac.org/knowledge-gateway/discussion/addressing-decline-accounting-talent-pipeline?>

⁹ [ISA for LCE Frequently Asked Questions](#)

¹⁰ [International Standard on Auditing for Audits of Financial Statements of Less Complex Entities | IAASB](#)

¹¹ <https://www.iaasb.org/focus-areas/isa-lce-standard-audits-less-complex-entities>

¹² <https://ifacweb.blob.core.windows.net/publicfiles/2023-12/IAASB-Audits-Less-Complex-Entities-LCE-Frequently-Asked-Questions.pdf>

6. Balancing Scalability and Audit Quality

Balancing scalability and audit quality is one of the central challenges for audits of less complex entities. On the one hand, auditors — particularly in small and medium-sized practices — need methods and documentation that are proportionate to the size and complexity of the engagement, avoiding unnecessary burden and cost. On the other hand, regulators and stakeholders expect the same level of assurance and professional rigor as in audits of larger, more complex entities. The key is to demonstrate that “scaled” does not mean “lower quality”. This requires clear linkage between identified risks, tailored audit responses, and sufficient appropriate evidence, supported by concise but transparent documentation. Embedding these principles into the firm’s system of quality management (ISQM 1/2) ensures that efficiency gains do not come at the expense of audit robustness, but instead enhance consistency, clarity, and confidence in the auditor’s opinion.

Whether for large or smaller entities, all auditors — from SMPs to large firms — must comply with the International Standards on Quality Management (ISQM 1 and ISQM 2). These standards guarantee the same high level of quality across all audit engagements. Quality is therefore never reduced; it is the same quality, achieved through a framework that is proportionate and better suited to the realities of Less Complex Entities.

Technology is becoming a critical enabler of scalability without compromising audit quality. Tools such as data analytics, automated workflows, e-invoicing integrations, and even emerging GenAI applications allow auditors to test larger data populations, streamline documentation, and focus resources on higher-risk areas. For SMPs in particular, technology can level the playing field by improving efficiency and enhancing the depth of analysis that would otherwise be impractical in lean teams.

7. Expectation Gap and Communication with Stakeholders

Persistent gaps remain between what users think an audit does and what it actually delivers (fraud detection, going concern forecasting, and scope). Empirical and conceptual studies emphasize that the gap has multiple dimensions: a knowledge gap (users misunderstanding audit scope), a performance gap (perceived deviations from standards), and an evolution gap (public expectations outpacing audit capability).¹³

For LCEs, the expectation gap can be amplified by fewer sophisticated users and compressed timelines. First, fewer sophisticated users: owners, local lenders, donors, or community stakeholders may not have deep financial literacy or a clear understanding of what an audit entails. They may assume the auditor provides absolute assurance, guarantees fraud detection, or certifies the financial health of the entity — expectations that exceed the profession’s mandate of reasonable assurance. Second, compressed timelines: LCE audits are frequently performed under tighter reporting deadlines and with leaner resources, leaving less opportunity for extended dialogue with stakeholders about scope, limitations, and responsibilities. Together, these factors make misunderstandings more likely.

Closing this gap requires clear, proactive communication. Tactics for SMPs to reduce the expectation gap include:

- Plain-language scoping in engagement letters and planning meetings
- Early TCWG touchpoints on significant risks and materiality

¹³ https://www.accaglobal.com/content/dam/ACCA_Global/professional-insights/Expectation-gap/pi-closing-expectation-gap-audit.pdf

- Going concern transparency: what auditors do (and do not) do
- Fraud discussions with TCWG; communicate limitations and procedures
- Management letter focused on pragmatic control improvements for small environments

Part III – The Future of the Audit Workforce

8. Talent Retention and Attraction in SMPs

Talent retention and attraction have become defining challenges for small- and medium-sized practices (SMPs), especially as they prepare to implement the ISA for LCE and respond to evolving expectations of audit quality and proportionality. The ability of SMPs to apply the new standard effectively will depend not only on technical competence, but also on their capacity to attract, develop, and retain skilled professionals.

SMPs often compete with larger networks for a limited pool of qualified graduates. To ensure successful adoption of the LCE Standard, firms need teams that are confident in exercising professional judgment and capable of applying principles-based auditing approaches efficiently.

Importantly, mastering the LCE Standard does not exempt professionals from understanding the broader suite of International Standards on Auditing (ISAs). On the contrary, auditors should be encouraged and expected to maintain a solid knowledge of the full standards, since understanding them provides the conceptual foundation to apply the LCE Standard appropriately. Knowing the ISAs and applying them are distinct, but complementary competencies — and both are essential to maintaining audit quality and professional credibility.

Younger professionals increasingly value flexibility, purpose, and development opportunities as much as pay, making traditional audit career models less attractive. For SMPs, visibly investing in staff growth — through rotations in analytics or advisory work, training in emerging technologies such as data analytics and GenAI, and clear, transparent career pathways — not only supports retention but also builds the competence and confidence needed to apply the LCE Standard effectively.

At the same time, fostering a culture that emphasizes work–life balance, mentorship, and professional purpose can help position SMPs as attractive and sustainable workplaces. Collaboration among SMPs, including regional and international alliances, can further support adoption of the LCE Standard by enabling shared training resources, peer learning, and consistent interpretation of the standard’s principles.

By aligning talent development with the goals of proportional, high-quality auditing, SMPs can turn the implementation of the LCE Standard into an opportunity — strengthening both their people and their role in delivering trust to the market.

9. Upskilling for Digital Transformation

Upskilling for digital transformation is no longer optional for SMPs; it is a strategic necessity. As clients adopt cloud accounting systems, e-invoicing platforms, and digital reporting tools, auditors must be able to extract, validate, and analyse data efficiently. Foundational skills such as secure data handling, data lineage testing, and understanding basic automated processes are now core competencies for audit staff. Building on these, firms need to develop capabilities in data analytics,

process automation, and cybersecurity awareness, ensuring auditors can both harness technology for efficiency and assess the risks it introduces. Structured learning paths that progress from digital hygiene to advanced analytics give young professionals a sense of growth while equipping the firm to keep pace with regulatory expectations and market demands.

At the same time, emerging tools such as GenAI bring new opportunities and challenges. GenAI can support auditors in drafting workpapers, analysing large document sets, or generating planning insights, but its use requires strong governance under the firm’s system of quality management. Staff must learn not only how to use such tools effectively, but also how to maintain professional scepticism, verify outputs, and document human oversight. Embedding these digital skills into career pathways — through micro-credentials, rotations, and mentorship — signals that SMPs are forward-looking employers. This dual focus on technical competence and professional judgment ensures that technology enhances, rather than dilutes, audit quality in the LCE environment.

Part IV – Reflections and Recommendations

10. Synthesis of Institutional Challenges

Auditing less complex entities (LCEs) presents a distinct set of challenges that cut across practice size, regulation, and market expectations. Scalability versus quality remains at the centre: while the ISA for LCE provides a tailored standard, differences in adoption across jurisdictions risk fragmentation. SMPs, which perform the majority of LCE audits, continue to face resource constraints, fee pressure, and compressed timelines — yet they are still expected to deliver audits at the same level of quality assurance as larger firms.

The expectation gap persists, particularly in LCE settings where users often have limited financial literacy, and it is amplified by tight deadlines that reduce opportunities for dialogue. At the same time, talent shortages and shifting workforce expectations put additional pressure on firms to modernize career models. Finally, the rapid pace of technological change offers tools to enhance audit quality but requires firms to strengthen governance, documentation, and oversight to manage the associated risks.

11. Policy Considerations for Regulators and Standard-Setters

Policymakers and standard-setters have a critical role to play in supporting LCE audits. First, clarity and consistency of adoption of the ISA for LCE are essential to avoid confusion about when and where the standard applies. Regulators should accompany adoption with transparent guidance and outreach to build confidence among stakeholders. In the absence of clear and consistent guidance from regulators on when and how the LCE Standard should be applied, SMPs may need to rely largely on their professional judgment to determine its applicability. While professional judgment is a cornerstone of auditing, excessive uncertainty could, in practice, discourage or even prevent the use of the standard. This makes regulatory clarity a key success factor. Supporting professional judgment and ensuring clear communication from regulators are not opposing goals — both are essential. The standards must be communicated effectively, both within the profession and to the wider public, to build understanding and trust.

Second, inspections of SMPs should take a proportional, outcomes-focused approach, recognizing that concise documentation can still support high-quality audits if risks, responses, and evidence are clearly linked.

Third, technology-neutral guidance is needed to help firms integrate analytics, automation, and GenAI responsibly, with safeguards on ethics, independence, and confidentiality.

Fourth, regulators and professional bodies should invest in capacity building, offering implementation resources, micro-learning, and cross-border knowledge exchange to level the playing field for SMPs.

Fifth, jurisdictional coordination is vital: aligning eligibility criteria and reporting conventions enhances comparability and reduces the risk of divergent assurance landscapes.

Finally, we must emphasize the importance of professional judgment, as well as the key activities and procedures that should be proportionate to the size and complexity of the engagement. This is the very heart of auditing, and it must be recognized and supported by regulators. Equally important is the adequate documentation of such judgments, ensuring that the rationale, evidence, and considerations underlying them are clearly articulated within the audit file. Proper documentation not only supports transparency and accountability but also reinforces confidence in the auditor's professional judgment and the overall quality of the engagement.

Regulators have a responsibility not only to oversee and enforce compliance, but also to promote the value and quality of auditing. Highlighting its positive contributions and acknowledging that isolated scandals do not reflect the overall integrity of the profession.

12. Practical Insights for SMP Leaders

For SMP leaders, three priorities stand out. First, codify eligibility and decision-making for using ISA for LCE where permitted, and document the rationale to demonstrate compliance and transparency.

Second, promote at all levels the exercise of professional judgment and scepticism within their practices, and ensure that these are properly evidenced and documented in the audit file. This cultural emphasis is key to maintaining audit quality and credibility under a principles-based standard.

Third, refresh systems of quality management (ISQM 1/2) with a focus on technology, talent, and third-party service providers, ensuring risk assessments are updated and engagement quality reviews are triggered by the right criteria.

Fourth, embed proportionality in documentation: link risks, responses, and evidence in a clear audit trail, supported by concise navigation tools rather than extensive boilerplate. In addition, SMPs should operationalize technology by approving specific tools, testing data integrity, and setting rules for human oversight of AI outputs.

On the people side, firms should repackage career pathways with visible skill-building opportunities in analytics, automation, and advisory, while investing in mentorship and work-life balance.

Finally, collaboration through alliances or networks can amplify resources — whether for training, hot reviews, or access to specialists — allowing SMPs to compete more effectively and deliver consistently high-quality audits to LCEs.

About EFAA for SMEs

The European Federation of Accountants and Auditors for small and medium-sized enterprises (EFAA for SMEs) is an umbrella organisation for national accountants and auditors' organisations whose individual members provide professional services primarily to SMEs within the European

Union and Europe as a whole. It was founded in 1994 and has 15 members throughout Europe representing over 400,000 accountants, auditors and tax advisors.